

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7918

BILL NUMBER: SB 438

DATE PREPARED: Jan 17, 2001

BILL AMENDED:

SUBJECT: Community Revitalization Enhancement Districts.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill permits the mayor or town council president of a municipality in St. Joseph County to submit an application for the establishment of a Community Revitalization Enhancement District (CRED) in the municipality if the submission of the application is approved by ordinance or resolution of the municipality. The bill permits establishment of a CRED in St. Joseph County if certain criteria are met. It also makes conforming changes.

Effective Date: Upon passage.

Explanation of State Expenditures: Under current law, Community Revitalization Enhancement Districts may be established only in Delaware County and parts of Monroe County. This bill would allow the creation of additional districts in municipalities within St. Joseph County.

After notification of a designation of a Community Revitalization Enhancement District by an advisory commission on industrial development, the Budget Committee must review and the Budget Agency must recommend the designation of the area. The Department of State Revenue (DOR) must calculate the income tax base period amount and the gross retail base period amount for the district. The Treasurer must establish an incremental tax financing fund for the county that establishes a district. Money in the fund does not revert to the General Fund at the end of the fiscal year. Annually, the DOR and the State Budget Agency must estimate and certify the amount of income tax and sales tax which will be collected from the district.

Explanation of State Revenues: *Community Revitalization Tax Credit:* Taxpayers in the CRED may receive a Community Revitalization Enhancement District Tax Credit. The bill would extend the credit to districts in St. Joseph County. The credit is available for qualified investments made for the redevelopment or rehabilitation of property located within a district. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Indiana Department of Commerce.

The tax credit is based on 25% of the qualified investment. The tax credit may be used to reduce the taxpayer's tax liability under the following taxes: Gross Income, Adjusted Gross Income, Supplemental Net Income, County Adjusted Gross Income, County Option Income, County Economic Development Income, Bank, Savings and Loan Association, Insurance Premiums and Financial Institutions. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer may assign any part of the credit to a lessee of the property redeveloped or rehabilitated but must be in writing and reported to the DOR.

A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

This tax credit is similar to the existing Industrial Recovery Site/Dinosaur Credit Program. (However this new tax credit is more restrictive due to the requirements specified in the bill.) Since the Industrial Recovery Site credit was established in 1987 through 1999, 30 buildings were approved for approximately \$29 M in credits. These credits were based on an estimated \$133.3 M of qualified investments. The credits ranged from \$50,000 to \$9 M with the average credit being approximately \$1 M for an average of \$5 M of qualified investments.

Tax Increment: Currently, up to \$1 M of the incremental taxes which are generated in a CRED are captured. This revenue is transferred to the district's Industrial Development Fund. The covered taxes which are included are Sales Tax, Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, and County Economic Development Income Tax. State sales and income taxes are generally deposited in the State General Fund and Property Tax Replacement Fund. The State forgoes any new income or sales tax revenue up to \$1 M which would be generated by the development in a community revitalization enhancement district. If new districts are added in St. Joseph County as a result of this bill, then those districts would also receive incremental revenue with a corresponding reduction in state revenue. Under current statute, the tax loss from the establishment of these districts is restricted to 15 years.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would allow the creation of additional districts in St. Joseph County. For an area in this county to be designated as a CRED, there must be a finding that:

- (1) The area contains buildings with 1.5 M square feet of vacant space;
- (2) area employment has decreased by 18,000 persons over the past ten years;
- (3) there are significant obstacles to redevelopment of the area; and
- (4) the unit has spent or allocated \$100,000 to address the redevelopment obstacles.

Community Revitalization District: An ordinance to designate an area as a CRED must be approved or a resolution adopted by the legislative body of a municipality before an application can be made to an advisory commission on industrial development. An advisory commission on industrial development who is considering the designation of this type of district must have three additional members appointed by the Governor, the Lieutenant Governor and the Director of the Department of Workforce Development.

Tax Increment: Currently, incremental taxes which are generated from new development in the district may be captured and deposited into the Industrial Development Fund. The local taxing units which would normally receive a share of the total local option income taxes generated in the districts under current statute

will not receive the incremental revenue generated. The bill allows money in the Industrial Development Fund to be pledged by the advisory commission to pay debt service on bonds and to maintain a Debt Service Reserve Fund.

The establishment of a CRED in St. Joseph County and the capture of these incremental taxes will be subject to local action and the ability of a community to meet the requirements set out in the bill. The district is limited to 15 years after the time of designation.

State Agencies Affected: State Budget Agency, Department of State Revenue, Indiana Department of Commerce.

Local Agencies Affected: Municipalities in St. Joseph County.

Information Sources: